

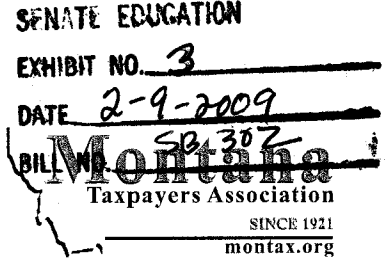
MONTANA TAXPAYERS *Association*

506 NORTH LAMBORN • HELENA, MONTANA 59601

P.O. BOX 4909 • HELENA MT 59604

(406) 442-2130

FAX (406) 442-1230



RICK HAYS, Chairman
MARY WHITTINGHILL, President

February 9, 2009

Chairman Laible
Members of the Senate Education and Cultural Resources Committee

RE: SB302

The Montana Taxpayers Association would like to be on record as an opponent of SB302. I apologize I cannot be there to give my testimony.

I have attached an analysis of the bill. We believe our comments are consistent with our prior testimony on efficiency of the distribution and the relationship of costs for a quality education.

Please contact me if you have any other questions.

Sincerely,

Mary Whittinghill

Cc: Senator Branae

What it does:

1. SB302 increases the maximum general fund budget of school districts by 25% of the special entitlements (per-educator, at risk, Indian education for all and American Indian achievement gap).
2. The increase allows districts to levy the additional amount.

Fiscal Impacts:

1. The fiscal note shows the increased over-BASE levy authority as approximately \$12.4 million annually as determined below:

<u>Item</u>	<u>FY2010</u>	<u>FY2011</u>
Per-educator payments	\$9,574,950	\$9,574,950
At risk	1,250,000	1,250,000
American Indian Achievement Gap	808,600	805,550
Indian Education for All	755,082	750,882
Total	\$12,388,631	\$12,381,382

2. The fiscal note states the additional levy spending would require approval of the district voters.
3. The impacts calculated in the fiscal note are based on current levels of each entitlement payment.

Analysis:

The increase in the over-BASE levy authority would be equivalent to nearly 6 mills on a statewide basis however the authority would vary significantly by district. Since the major item is the per-educator entitlement the mill levy impact to any district depends on the school's efficiency in terms of numbers of teachers relative to size and the relative property value of the district. An example of the potential levy disparities:

<u>District</u>	<u>Levy (mills)</u>
Whitefish	2.96
Columbus	3.05
Deer lodge	7.12
Miles City	11.91

The impact will rise if the entitlements are increased. SB69 would approximately double the per-educator entitlement with a corresponding increase in the impact of SB302 on district levy authority. HB388 which would increase the per-educator payment significantly would likewise increase the over-BASE levy authority if this bill were enacted.

Based on findings in the analysis of the per-educator payment related to equity, incentives and stability it would be problematic to base an expansion of local levy authority on that entitlement.

1 51. **Inflation.** Pursuant to Section 20-9-326, MCA, the legislature
2 requires the Superintendent of Public Instruction to determine the inflation factor for
3 the basic entitlement and per-ANB entitlement in each fiscal year. Inflation is capped
4 at 3 percent, but this 3 percent seems to be based on the historical inflation rate since
5 1991 of 2.7 percent. A problem that arises with this portion of the funding system is
6 that the legislature must estimate inflation for school budgets adopted many months
7 later. For example, the 2009 regular session of the Montana legislature will fund
8 school district budgets adopted in 2010 and 2011. Clearly this action by the
9 legislature addresses this Court=s earlier Order about the previous lack of any
10 automatic inflation adjustment at all.

11 52. Exhibit 784 shows State appropriations for K-12 for fiscal year
12 2002 through 2009. During that time, State aid, excluding one-time only money, has
13 increased 25.8 percent, or 8 percent above inflation. Further, Exhibit 821 shows State
14 funding for K-12 education from 1991 through 2007, and shows that actual State
15 spending has exceeded inflation. This does include one-time only expenditures. To
16 counter this, Plaintiffs have presented Exhibit 554, which excludes one-time only
17 money and purports to show that actual State spending has fallen behind inflation.

18 53. While these dueling charts are interesting, they merely point out
19 a source of discomfort to this Court. It appears, to some degree, that the very
20 complex numbers involved in this case can be modified to reflect a desired outcome.
21 Variables include what rate of inflation one uses, whether one uses all State funding
22 or excludes one-time only money, and so on. This Court is unsure which chart or
23 graph is more accurate. The nature of these dueling charts causes the Court to
24 question many of the statistics contained therein.

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1 54. Although current inflation has nearly doubled with a 2.3 percent
2 increase not seen in nearly three decades, this unusual price spike is a departure from
3 the historical trend for which a legislature that met in spring of 2007 cannot be held
4 accountable. The volatility in actual inflation cannot be smoothed in a biennial
5 legislative cycle without some years falling behind actual inflation and, equally
6 important, some years outpacing actual inflation. In these circumstances, districts=
7 ability to earmark an operating reserve of 10 percent each year and draw on other
8 fund balances, enables them to respond to spikes in actual inflation during the
9 biennium.

10 55. The 2005 special session provided a quality educator payment of
11 \$2,000 for each full-time equivalent. This was increased in the 2007 special session
12 to \$3,036 for FY 2008 and to \$3,042 for FY 2009. In their post-hearing
13 memorandum, Plaintiffs complain that the legislature increased the quality educator
14 payment by substantially more than inflation from 2007 to 2008, but then by only 0.2
15 percent from 2008 to 2009. The quality educator payment went up by almost 50
16 percent from 2007 to 2008. It is true that the increase from 2008 to 2009 is minor.
17 However, one could also argue that the very generous increase from 2007 to 2008 was
18 far in excess of any inflationary standard, and perhaps the State should be given some
19 credit for many future years for far exceeding inflation with this increase.

20 56. It is true that when funding levels were being determined for the
21 basic and per-ANB entitlements for 2007 (to apply to 2008 and 2009), the
22 computation set forth resulted in an inflation adjustment in excess of 3 percent, but
23 the adjustment was automatically capped at 3 percent because of the statute. (J.
24 Standaert Test.) During the 2007 session, the legislature did not inflation adjust any
25

of the four new components. Further, funding for the at-risk and American Indian Achievement Gap remain the same for 2008 and 2009 as they were originally established in 2007. Although these findings do reflect some problems with the current inflationary adjustment provided by the State, it must be also found that having an automatic inflationary adjustment as currently provided by the legislature is a dramatic improvement of the situation earlier found by this Court in 2004.